

Message Text

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TO SECSTATE WASHDC 4289

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TAGS: EMIN, AS

SUBJ: NONFUEL MINERALS POLICY REVIEW: AUSTRALIA

REF: STATE 191380

1. BEGIN SUMMARY: AUSTRALIA POSSESSES ADEQUATE RESERVES OF THE BASIC MINERAL AND ENERGY RESOURCES, WITH THE EXCEPTION OF PETROLEUM, REQUIRED FOR A DOMESTIC INDUSTRIAL BASE AND AN IMPORTANT EXPORT ECONOMY. AUSTRALIA HAS THE LARGEST RESERVES IN THE WORLD OF BAUXITE AND MINERAL SANDS (ILMENITE, RUTILE, ZIRCONIUM AND MONAZITE). THE URANIUM RESERVES ARE POTENTIALLY THE LARGEST IN THE WORLD.

2. THE MINERAL RESERVE SITUATION FOR MINERALS WHICH ARE THE SUBJECT OF THIS REPORT IS: 100 YEARS PLUS--BAUXITE, IRON ORE, NICKEL, PHOSPHATE ROCK; 30-100 YEARS--ASBESTOS (BLUE), COPPER, LEAD, MANGANESE, ZINC; 15-30 YEARS--COBALT, MONAZITE, TIN, TITANIUM, ZIRCONIUM; AND LESS THAN FIVE YEARS--ASBESTOS (WHITE), CHROME.

3. BASED ON TONNAGE FIGURES FOR CALENDAR 1977, AUSTRALIA RANKS HIGH AMONG WORLD PRODUCERS OF SOME MINERALS: 1ST--UNCLASSIFIED

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BAUXITE, MONAZITE, RUTILE, ZIRCONIUM; 2ND--ALUMINA, IRON ORE; 3RD--ILMENITE, LEAD; 4TH-NICKEL, ZINC; 5TH-MANGANESE, TIN.

4. PROGRESS IN MINERAL EXPLORATION AND MINE DEVELOPMENT HAS IMPROVED SUBSTANTIALLY OVER THE LAST TWO YEARS. EXPLORATION ACTIVITY CONTINUES TO INCREASE AS MAKRED BY THE ARRIVAL OF

NEW COMPANIES AND INCREASED EXPENDITURE ON EXPLORATION ACTIVITIES. WORLD ECONOMIC CONDITIONS HAVE, HOWEVER, RESULTED IN SOME MINE CLOSURES BECAUSE OF LOW MINERAL PRICES AND DECREASED DEMAND.

5. ESCALATING COSTS RESULTING IN REDUCED PROFITS STILL PLAGUE THE AUSTRALIAN MINING INDUSTRY. COST INCREASES RESULT PARTIALLY FROM DOMESTIC WAGE-PUSH INFLATION, EXPORT CONTROLS, LABOR PROBLEMS, AND THE IMPOSITION OF ROYALTIES ON MINE PRODUCTION BY STATE GOVERNMENTS.

6. INFLATION HAS DECLINED TO 8.2 PERCENT PER ANNUM AS OF THE FIRST QUARTER OF 1978. THIS IS DOWN FROM 14.4 PERCENT FOR CALENDAR 1976.

7. IN SPITE OF CONTINUALLY INCREASING COSTS, EXPEDITURES IN MINE DEVELOPMENT ARE INCREASING, HOWEVER SLOWLY. SEVERAL MINING VENTURES CONTINUE TO INCREASE THE ORE CUT-OFF GRADES TO IMPROVE PROFITABILITY. THIS SHORT-TERM SOLUTION CANNOT PERSIST INDEFINITELY AS IS BEING FOUND OUT BY SOME MINING VENTURES WHICH ARE NOW FACED WITH SPIRALING OREBODY DEVELOPMENT COSTS WHICH ARE INEVITABLE IN ANY MINING VENTURE.

8. AUSTRALIA'S PROSPERITY IN THE NONFUEL SECTOR IS DIRECTLY RELATED TO THE STATE OF THE WORLD ECONOMY BECAUSE AUSTRALIA HEAVILY DEPENDS ON EARNINGS FROM THE MINERAL EXPORT SECTOR.
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EXCLUDING COAL, THE MAIN NONFUEL MINERAL EXPORTS ARE: IRON ORE, COPPER, ZINC, LEAD, BAUXITE AND NICKEL.

9. THE CURRENT WORLD RECESSION HAS IMPACTED HEAVILY ON AUSTRALIA AND HAS RESULTED IN EITHER THE SHUT DOWN OR CURTAILMENT OF PRODUCTION OF SOME MINING VENTURES, NAMELY COPPER, NICKEL AND IRON ORE. THE HEALTH OF THE JAPANESE ECONOMY IS A PRINCIPAL DETERMINANT OF THE HEALTH OF THE AUSTRALIAN EXPORT ECONOMY BECAUSE AUSTRALIA EXPORTS SEVERAL MINERAL COMMODITIES TO JAPAN.

10. AUSTRALIA AFFORDS AN INVESTMENT CLIMATE THAT AT THE GOVERNMENT LEVEL IS GENERALLY CONDUCIVE TO FOREIGN INVESTORS. FOREIGN INVESTMENT PROJECTS ARE SUBJECT TO SCRUTINY BY THE FOREIGN INVESTMENT REVIEW BOARD AND THE FOREIGN TAKEOVERS ACT TO ASSURE THAT EFFORTS ARE BEING MADE TO OBTAIN MAXIMUM AUSTRALIAN EQUITY IN A PROJECT.

11. AUSTRALIA TENDS TO BE A RESPONSIBLE ACTOR IN THE WORLD MINERAL SCENE, AND WHILE PARTICIPATING IN MINERAL PRODUCER GROUPS, HAS MAINTAINED A REASONABLE ATTITUDE IN INTERNATIONAL MINERAL AFFAIRS. RELATIONSHIPS BETWEEN AUSTRALIAN

GOVERNMENT AND PRIVATE SECTORS AND THEIR COUNTERPARTS IN THE UNITED STATES ARE GOOD AND THERE IS NO REASON TO BELIEVE THAT THE MINERAL SECTORS OF BOTH COUNTRIES CANNOT CONTINUE TO BENEFIT FROM THEIR ASSOCIATIONS OVER THE REMAINING YEARS OF THIS CENTURY. END SUMMARY.

12. QUESTIONNAIRE: IT SHOULD BE NOTED THAT RESPONSES TO THE QUESTIONS WERE PREPARED WITHOUT THE BENEFIT OF A COPY OF THE "PROJECT MANAGEMENT PLAN (PMP) FOR THE DOMESTIC POLICY REVIEW OF NONFUEL MINERALS POLICY." THE PMP WAS NOT RECEIVED AT THE POST. TABULAR INFORMATION HAS NOT BEEN TRANSMITTED WITH THIS MESSAGE, BUT RATHER HAS BEEN MAILED TO EA/ANP-CHARLES TWINING. RESPONSES ARE NUMBERED PER QUESTIONNAIRE PARAGRAPHS.

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(1) POPULATION GROWTH IS LIKELY TO AVERAGE 1.5 PERCENT ANNUALLY FROM 1978-85 AND ONE PERCENT ANNUALLY FROM 1985-2000. THE NATURAL INCREASE OF THE AUSTRALIAN POPULATION HAS DROPPED BELOW ONE PERCENT, AND NET MIGRATION HAS DECLINED TO AN INSUBSTANTIAL OR EVEN NEGATIVE LEVEL. AVERAGE POPULATION GROWTH FROM 1971-75 WAS 1.48 PERCENT, WITH 1975 AT 0.86 PERCENT BEING THE LOWEST YEAR OF THE FIVE. THOUGH AN IMPROVEMENT IN THE ECONOMY IS LIKELY TO RAISE THE NET MIGRATION FIGURES SUFFICIENTLY TO SUSTAIN AN AVERAGE 1.5 PERCENT GROWTH RATE TILL 1985, THEREAFTER AN INCREASING RECOGNITION OF THE LIMITATIONS IMPOSED BY THE GEOGRAPHIC HARSHNESS OF AUSTRALIA IS LIKELY TO REDUCE OFFICE ENCOURAGEMENT OF IMMIGRATION ENOUGH TO LOWER THE GROWTH RATE.

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AUSTRALIAN GROWTH HAS BEEN LAGGING IN RECENT YEARS, DUE IN PART TO THE ECONOMIC PENALTIES EXACTED BY ITS HIGH LEVELS OF PROTECTION, IN PART TO DEMAND-SUPPRESSING GOVERNMENT POLICIES, AND IN PART TO SUBDUED WORLD DEMAND FOR AUSTRALIA'S PRIMARY PRODUCTS. THE INFLUENCE OF THESE FACTORS IS LIKELY TO HOLD AVERAGE AUSTRALIAN GROWTH TO ABOUT THE 3 PERCENT LEVEL THROUGH 1985. INCREASED WORLD DEMAND FOR AUSTRALIAN MINERALS IS LIKELY TO RAISE GROWTH RATES TO ABOUT A 4 PERCENT AVERAGE THEREAFTER, DESPITE THE PROBABLE CONTINUATION OF GROWTH-REDUCING PROTECTIONIST POLICIES.

THE RELATIVELY SUBDUED LEVELS OF BOTH POPULATION AND ECONOMIC GROWTH SUGGEST THAT AUSTRALIA WILL CONTINUE TO HAVE AVAILABLE FOR EXPORT A LARGE PROPORTION OF ITS MINERAL PRODUCTION (I.E., THAT IT WILL NOT BE ABSORBED BY DOMESTIC CONSUMPTION). THE ARTIFICIALLY HIGH EXCHANGE RATE MAINTAINED BY THE DEMAND-REDUCING EFFECT OF HIGH TARIFFS SUGGESTS THAT EXPORT OF MINERALS IN RELATIVELY RAW FORM WILL CONTINUE TO BE GENERALLY MORE ECONOMICAL THAN EXPORT IN PROCESSED OR MANUFACTURED FORM. THE EXCHANGE RATE DISINCENTIVE TO EXPORTING SUGGESTS THAT AUSTRALIA WILL FIND IT ECONOMICALLY UNATTRACTIVE TO DEEMPHASIZE MINERALS EXPORTS, SINCE AUSTRALIA'S COMPETITIVE ADVANTAGE APPEARS TO BE
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GREATER IN THE MINERALS FIELD THAN IN EITHER AGRICULTURE OR MANUFACTURING.

(2A-D) ALUMINUM INDUSTRY: THE AUSTRALIAN ALUMINUM INDUSTRY HAS HELD ITS OWN IN SPITE OF DECLINING PRICES AND FALLING DEMAND. A MAJOR REASON THAT THE INDUSTRY DID NOT FEEL THE IMPACT OF THE WORLDWIDE RECESSION IS THAT, IN SPITE OF THE DECLINE OF JAPANESE INDUSTRIAL ACTIVITY, AUSTRALIAN ALUMINA REMAINS VERY COMPETITIVE IN JAPAN BECAUSE OF HIGHER JAPANESE POWER COSTS.

AUSTRALIA, THE WORLD'S LEADING EXPORTER OF BAUXITE, PRODUCES ABOUT 25 PERCENT OF ALL THE BAUXITE CONSUMED IN THE WORLD. IN 1977, MEASURED AND INDICATED RESERVES OF AUSTRALIAN BAUXITE TOTALED 2,700 MILLION TONNES. IN ADDITION, INFERRED RESERVES WERE CALCULATED AT 1,749 MILLION TONNES AND SUB-ECONOMIC RESOURCES AT ABOUT 1,970 MILLION TONNES.

ALUMINA OUTPUT IN 1977 WAS THE HIGHEST EVER FOR

AUSTRALIA. OUTPUT WAS INCREASED BY EXPANDING REFINERY CAPACITY, AN EXPANSIONARY TREND STILL IN EVIDENCE IN AUSTRALIA. PRIMARY ALUMINUM OUTPUT INCREASED IN 1977, AS A RESULT OF THE COMMISSIONING OF ADDITIONAL PLANT CAPACITY. IT HAS BEEN ESTIMATED THAT THE TOTAL EXPORT INCOME EARNED BY THE ENTIRE ALUMINUM INDUSTRY IN 1977 WAS DOLS A 710 MILLION.

OPTIMISTIC FORECASTS OF INCREASING DEMAND FOR ALUMINUM IN THE 1980S HAS RESULTED IN PLANS FOR EXPANDING THE FACILITIES AND CAPACITIES OF ALL SEGMENTS OF THE INDUSTRY. IN 1978, IT IS EXPECTED THAT THE ALUMINUM INDUSTRY WILL BE ONE OF THE BIGGEST CAPITAL SPENDERS IN AUSTRALIA.

DESPITE THE EXPANSION OF ALUMINUM INDUSTRIAL FACILITIES
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IN AUSTRALIA, THE INDUSTRY FACES DIFFICULTIES BECAUSE IT IS CAPITAL INTENSIVE AND ECONOMIES OF SCALE REQUIRE LARGE SIZE. MOST SMELTERS THROUGHOUT THE WORLD PRODUCE MORE THAN 200,000 TONNNES OF ALUMINUM, BUT IN AUSTRALIA THE COMBINED CAPACITY OF THREE SMELTERS IS ONLY 250,000 TONNES. FEASIBILITY STUDIES HAVE BEEN CARRIED OUT ON LARGE SCALE SMELTING PLANTS IN AUSTRALIA, BUT SO FAR THEY HAVE INDICATED THAT COSTS WOULD BE PROHIBITIVE.

ASBESTOS: THE ONLY OPERATING ASBESTOS MINE IN AUSTRALIA IS NOW FACING MINE CLOSURE. WOODSREEF IS FACED WITH MAINTAINING A PROFITABLE OPERATION AND AT THE SAME TIME UNDERTAKING LARGE CAPITAL EXPENDITURES NEEDED TO INSTALL DUST INHIBITORS TO COMPLY WITH STATE HEALTH REGULATIONS.

WOODSREEF'S PROBLEMS ARE ATTRIBUTABLE TO THE FACT THAT SALES CONTRACTS ARE WRITTEN IN CANADIAN DOLLARS, WHICH IS NOT A VERY STRONG CURRENCY, AND INCREASED COMPETITION FOR ASBESTOS IN SOUTHEAST ASIA FROM PHODESIAN ORE. THE MINER HAS SOUGHT AND BEEN DENIED ADDITIONAL BANK FINANCING AND IS CURRENTLY SEEKING FEDERAL AID, WHICH IS NOT LIKELY TO BE FORTHCOMING. THEREFORE, MINE CLOSURE IS IMMINENT.

AUSTRALIAN COMSUMPTION OF ASBESTOS BY THE ASBESTOS CEMENT INDUSTRY HAS BEEN INCREASING. THEREFORE, THE MINE CLOSURE WILL HAVE ADVERSE EFFECTS. AUSTRALIA, WHICH ALREADY IMPORTS ASBESTOS, WILL BECOME MORE RELIANT ON ASBESTOS IMPORTS FROM SOUTH AFRICA AND CANADA. TO DATE, ASBESTOS EXPORTS HAVE BEEN PRINCIPALLY TO JAPAN AND THAILAND.

CHROMITE: NO CHROMITE IS CURRENTLY MINED IN AUSTRALIA. THE LAST REPORTED DOMESTIC MINE PRODUCTION WAS IN 1968. THE LARGEST DEPOSIT OF REFRACTORY CHROMITE IN WESTERN AUSTRALIA HAS BEEN UNWORKED SINCE 1957. QUANTITIES OF CHROMITE

IMPORTED AND CONSUMED IN AUSTRALIA HAVE VARIED CYCLICALLY,
AND THE TREND IS LIKELY TO CONTINUE DOWNWARD BECAUSE OF THE
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DEPRESSED STATE OF THE DOMESTIC IRON AND STEEL INDUSTRY.
AUSTRALIA IMPORTS CHROMITE FROM THE PHILIPPINES AND SOUTH
AFRICA. MOST OF THE FERROCHROME IS IMPORTED FROM JAPAN,
SOUTH AFRICA AND SWEDEN.

COBALT: COBALT IS PRODUCED AS A BY-PRODUCT IN THE
MINING OF NICKEL, COPPER AND ZINC ORES. COBALT IS MARKETED
AS BOTH COBALT OXIDE AND MIXED WITH NICKEL AND COBALT
SULPHIDES.

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IT IS DIFFICULT TO GET A HANDLE ON COBALT STATISTICS;
PRODUCTION DATA FOR COBALT MAY REFLECT INFLATED TOTALS.
A PRODUCTION DECLINE IS LIKELY BECAUSE OF THE REDUCTION OF
NICKEL PRODUCTION PARTICULARLY, AND IT IS NOT EXPECTED THAT
DOMESTIC COBALT PRODUCTION WILL INCREASE IN THE FORESEEABLE
FUTURE. EXPANSION COULD OCCUR, HOWEVER, SHOULD SOME OF THE
NICKLE MINERS CONCENTRATE MORE HEAVILY ON COBALT EXTRACTION
AT THE EXPENSE OF NICKEL PRODUCTION. OF THE TWO PRINCIPAL
COBALT PRODUCERS, ONE SENDS ITS ENTIRE OUTPUT TO JAPAN, THE
OTHER TO CANADA. CONSUMPTION OF COBALT IN AUSTRALIA IS ONLY
ABOUT 30 TONNES PER ANNUM AND IS UNLIKELY TO CHANGE

SIGNIFICANTLY. IMPORTS OF COBALT ARE NEGLIGIBLE.

COPPER: COPPER CONCENTRATE PRODUCTION IN AUSTRALIA HAS BEEN DECLINING OVER THE PAST FEW YEARS. IN 1977, MOST DOMESTIC COPPER PRODUCERS INCURRED LARGE OPERATING LOSSES, NOT ONLY AS A RESULT OF LOW COPPER PRICES, BUT ALSO AS A RESULT OF HIGH INFLATION AND PRODUCTION COSTS. AUSTRALIAN COPPER MINES ARE AMONG THE 5 PERCENT MOST EXPENSIVE COPPER MINES IN THE WORLD TO OPERATE. ONLY MT. ISA OPERATED PROFITABLY IN 1977, AND THIS MINE PRODUCES 60 PERCENT OF AUSTRALIA'S COPPER. FINANCIAL CONDITIONS BECAME SO BAD IN 1977 THAT SOME COPPER MINERS SOUGHT FEDERAL AID, WHICH WAS UNCLASSIFIED

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NOT FORTHCOMING, IN ORDER TO CONTINUE OPERATIONS. SOME MINES CLOSED, OTHERS HAVE CUT BACK ON PRODUCTION.

TOTAL IDENTIFIED COPPER RESOURCES IN AUSTRALIA HAVE BEEN ESTIMATED TO BE 10.4 MILLION TONNES OF CONTAINED COPPER. MEASURED AND INDICATED RESERVES TOTAL 5.6 MILLION TONNES. IN ALL PROBABILITY THESE RESERVE FIGURES WILL BE INCREASED BECAUSE OF THE DISCOVERY OF TWO RATHER LARGE AND PROMISING COPPER ORE BODIES.

COPPER EXPORTS ARE MAINLY TO JAPAN AND HAVE RECENTLY DECLINED. COPPER IMPORTS ARE VIRTUALLY NON-EXISTENT AND CONSIST OF ONLY ALLOYED AND NONALLOYED COPPER WASTE. DOMESTIC CONSUMPTION OF COPPER CONCENTRATES HAS ALSO DECLINED.

THE PROSPERITY OF THE AUSTRALIAN COPPER INDUSTRY DEPENDS DIRECTLY ON A WORLD ECONOMIC RECOVERY IN GENERAL AND AN INCREASED USAGE BY THE JAPANESE IN PARTICULAR. THE COUNTRY POSSESSES THE CAPACITY TO EXPAND COPPER PRODUCTION RAPIDLY WHEN THE TIME COMES, AND RESERVES ARE SUBSTANTIAL ENOUGH TO LAST FOR SEVERAL DECADES.

IRON ORE AND SCRAP: THE CONTINUING WORLD RECESSION AND RESULTANT LACK OF DEMAND FOR STEEL HAS BEEN RESPONSIBLE FOR THE BUILDUP OF HUGE IRON ORE STOCKPILES, PARTICULARLY IN JAPAN. THIS IRON ORE GLUT HAS HAD A VERY SERIOUS EFFECT ON AUSTRALIAN IRON ORE PRODUCERS. IN EARLY 1978, THE JAPANESE STEEL MILLS INDICATED THEY WOULD HAVE TO RENEGE ON SOME OF THEIR LONG-TERM CONTRACTS BY IMPORTING LESS IRON ORE THAN THE BASE LEVELS SET IN THE CONTRACTS. THEREUPON, A PRICE CUT WAS ANNOUNCED BY THE AUSTRALIAN PRODUCERS. FOLLOWING THIS ACTION, THE JAPANESE ANNOUNCED THAT THEY WOULD PURCHASE UNCLASSIFIED

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SOME IRON ORE AND STOCKPILE IT. THE FULL IMPACT OF THIS PROPOSAL HAS NOT YET BEEN FELT IN AUSTRALIA AS ONLY TWO JAPANESE SHIPMENTS HAVE BEEN DESIGNATED AS PURCHASES FOR STOCKPILING PURPOSES.

IRON ORE PRODUCTION INCREASED TILL THE END OF FISCAL 77, BUT SINCE THAT TIME THERE HAVE BEEN SERIOUS DISRUPTIONS TO THE INDUSTRY BECAUSE OF INDUSTRIAL STRIFE AS WELL AS THE UNSATISFACTORY PRICE NEGOTIATIONS WITH THE JAPANESE. THERE HAVE ALSO BEEN DECLINES IN EXPORTS TO EUROPE. AUSTRALIA IS NOW TURNING TO TAIWAN, SOUTH KOREA AND CHINA AS LARGER IRON ORE EXPORT MARKETS, BUT THEY ARE FACING COMPETITION FROM BRAZILIAN IRON ORE WHICH IS NOW BEING MARKETED IN THE PACIFIC REGION.

JAPAN IS FAR AND AWAY THE PRINCIPAL IMPORTER OF IRON ORE PELLETS AND FINES FROM AUSTRALIA. AUSTRALIAN IMPORTS OF IRON ORE CONCENTRATES ARE INCONSEQUENTIAL. DOMESTIC CONSUMPTION OF IRON ORE HAS DECLINED IN AUSTRALIA IN THE PAST YEAR, AFTER A STEADY RISE IN THE PAST. THE DOMESTIC STEEL INDUSTRY IS CURRENTLY DEPRESSED TO THE POINT WHERE SOME FURNACES HAVE BEEN CLOSED DOWN.

EXPANSIONARY MINE AND CONCENTRATING PLANT PLANS ARE PROCEEDING IN THE AUSTRALIAN IRON ORE INDUSTRY, THOUGH AT A SLOWER RATE THAN ORIGINALLY PLANNED. THE INDUSTRY IS OPTIMISTIC THAT THE DEMAND FOR IRON ORE WILL INCREASE IN THE 1980S AND REMAIN VIABLE FOR THE REMAINDER OF THE CENTURY. AT SUCH TIME AS IRON ORE EXPORTS CONDITIONS IMPROVE, AUSTRALIA IS IN A GOOD POSITION TO EXPAND EXISTING CAPACITY BY PLANT AND MINE ENLARGEMENT, AS WELL AS TO OPEN SEVERAL PROMISING OREBODIES. AUSTRALIAN IRON ORE RESERVES CALCULATED ACCORDING TO GRADE OF ORE ARE ESTIMATED AT 35,000 MILLION TONNES OF ORE CONTAINING 50 PERCENT OR MORE IRON.

THE EXPORT AND CONSUMPTION OF IRON SCRAP IS MINOR IN
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AUSTRALIA. NO COUNTRY DETAILS ARE AVAILABLE FOR THE DECLINING SCRAP EXPORTS. SCRAP IMPORTS ARE ALMOST ENTIRELY FROM PAPUE NEW GUINEA, AND THEY ARE INCONSEQUENTIAL.

LEAD, SILVER, ZINC: DEMAND FOR REFINED LEAD REMAINED STRONG THROUGH 1977, WHICH RESULTED IN AN INCREASE IN MARKET ACTIVITY, A REDUCTION IN PRODUCTION STOCKPILES TO EXTREMELY LOW LEVELS, AND A MARKED INCREASE IN THE PRICE OF LEAD TO AN ALL TIME HIGH. PRICE INCREASES, HOWEVER, HAVE NOT

BEEN MAINTAINED.

AT THE END OF 1977, AUSTRALIA'S KNOWN RESERVES OF LEAD WERE ESTIMATED AT 16.35 MILLION TONNES OF CONTAINED LEAD. THE INDUSTRY HAS THE CAPACITY TO EXPAND PRODUCTION READILY IN THE FACE OF INCREASED DEMAND OVER THE NEXT FEW DECADES.

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MOST OF THE LEAD MINES IS SMELTED LOCALLY AND EXPORTED AS BULLION TO EUROPE AND AS A REFINED METAL MAINLY TO EUROPE AND ASIA. DOMESTIC CONSUMPTION OF LEAD CONTINUED TO INCREASE THROUGH THE DATA PERIOD, BUT DATA FOR 1978 IS LIKELY TO REVEAL A DECLINE IN DOMESTIC CONSUMPTION OF LEAD AND LEAD PRODUCTS.

AUSTRALIAN ZINC RESERVES ARE ESTIMATED TO BE 23.78 MILLION TONNES OF CONTAINED ZINC. ZINC PRODUCTION, WHICH IS A FUNCTION OF LEAD PRODUCTION, HAS REMAINED HIGH THROUGH THESE DIFFICULT TIMES, SO THE INDUSTRY IS POISED TO MEET INCREASED DEMANDS READILY IN THE 1980S AND BEYOND. BUT THE INDUSTRY FACES A BLEAK FUTURE IN THE SHORT TERM BECAUSE OF THE EXISTENCE OF LARGE ZINC STOCKPILES. THE WORLD ZINC INDUSTRY HAD A TRYING TIME DURING 1977 WHEN CONSUMPTION DECLINED WHILE OUTPUT OF ORE REMAINED AT HIGH LEVELS AND SUPPLIES OF REFINED METAL INCREASED. OF THE ZINC MINED IN AUSTRALIA, 50 PERCENT IS SOLD AS CONCENTRATE TO SMELTERS IN EUROPE AND TWO-THIRDS OF THE REMAINDER AS ZINC METAL TO SOUTHEAST ASIA, INDIA, NEW ZEALAND AND THE UNITED STATES. THERE HAVE BEEN NO ZINC IMPORTS IN RECENT YEARS, AND DOMESTIC CONSUMPTION HAS REMAINED RELATIVELY STABLE.

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AUSTRALIA IS THE 6TH RANKING COUNTRY IN SILVER PRODUCTION. NINETY PERCENT OF THE SILVER PRODUCED IS OBTAINED FROM LEAD/ZINC MINING OPERATIONS, WITH THE BALANCE PRODUCED AS A BY-PRODUCT FROM COPPER AND GOLD MINING OPERATIONS. OF THE SILVER PRODUCED, HALF IS EXPORTED CONTAINED IN LEAD BULLION, SOME IS MADE INTO SILVER MINT BULLION AND THE REST EXPORTED IN LEAD, ZINC, COPPER AND GOLD CONCENTRATES.

CURRENT OUTLOOK FOR LEAD AND ZINC IS NOT VERY BRIGHT. LEAD PRODUCERS ARE IN THE BEST SITUATION BECAUSE INCREASED CONSUMER DEMAND IN 1977, ATTRIBUTABLE TO HIGHER BATTERY PRODUCTION WITH THE COLD NORTHERN HEMISPHERE WINTER, REDUCED INVENTORIES TO SATISFACTORY LEVELS, BUT THE STILL DEPRESSED WORLD ECONOMY COULD LEAD TO ANOTHER STOCKPILE BUILDUP. ZINC PROSPECTS ARE POOR BECAUSE OF THE HUGE STOCKPILES STILL EXISTING. SILVER PRICES, THOUGH LESS BUOYANT THAN GOLD, HAVE RISEN SUBSTANTIALLY, AND THIS HAS BEEN OF SOME ASSISTANCE TO LEAD/ZINC PRODUCERS.

MANGANESE: MOST OF THE MANGANESE PRODUCED IN AUSTRALIA IS EXPORTED TO JAPAN AND EUROPE, WITH THE UNITED STATES PURCHASING SOME TONNAGES. AUSTRALIA'S MANGANESE RESERVES ARE ESTIMATED TO BE ABOUT 890 MILLION TONNES, AT THE CURRENT RATE OF EXTRACTION, MINING AT THE ONLY ACTIVE DOMESTIC MINE WILL LAST FOR ANOTHER 500 YEARS.

DOMESTIC CONSUMPTION OF MANGANESE IS CHIEFLY IN THE IRON AND STEEL SECTOR. EVEN THOUGH THE DATA REVEAL INCREASED DOMESTIC CONSUMPTION OF MANGANESE, IT IS LIKELY THAT A MARKED DECLINE WILL OCCUR IN 1978 BECAUSE OF THE DEPRESSED STATE OF THE AUSTRALIAN IRON AND STEEL INDUSTRY.

ON THE EXPORT MARKET, THE SHORT TERM OUTLOOK IS NOT
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BRIGHT, AND MARKETS FOR MANGANESE ARE LIKELY TO BE HIGHLY COMPETITIVE UNTIL THERE IS A SHARP RISE IN THE DEMAND FOR WORLD STEEL.

MINERAL SANDS: MINERAL SANDS WERE NOT INCLUDED IN THE QUESTIONNAIRE, BUT SINCE AUSTRALIA IS A MAJOR SUPPLIER OF THIS COMMODITY, IT BEARS MENTIONING. THE MINERAL SANDS INDUSTRY HAS BEEN UNDER SEVERE ATTACK IN AUSTRALIA BY

CONSERVATIONISTS, THE RESULT BEING EITHER THE SUSPENSION OF SOME MINING OPERATIONS OR DENIAL OF ACCESS TO DEPOSITS. CONTINUAL FALLING PRICES HAVE PLAGUED ZIRCON AND RUTILE PRODUCERS, BUT ILMENITE PRICES HAVE REMAINED STABLE. WEST COAST ZIRCON MINING HAS BEEN ABANDONED, BUT THE WORLD DEMAND FOR SUPERIOR QUALITY EAST COAST ZIRCON OUTSTRIPS SUPPLY.

THERE HAS BEEN A DECLINE IN ILMENITE EXPORTS IN THE LAST YEAR, WITH THE U.K., U.S.A., JAPAN AND FRANCE THE PRINCIPAL MARKETS. RUTILE EXPORTS INCREASED ENORMOUSLY IN THE LAST REPORTING PERIOD, WITH THE U.S.A. PURCHASING THE BULK OF THE OUTPUT. ZIRCON EXPORTS ALSO INCREASED IN THE LAST REPORTING PERIOD WITH SPAIN AND JAPAN THE MAIN MARKETS.

THE INDUSTRY FACES A PERIOD OF UNCERTAINTY AND OVERSUPPLY IN THE WORLD MARKET. PRODUCERS ARE OPTIMISTIC THAT THE DEMAND FOR TITANIUM AND ZIRCON WILL GROW AND THAT THE CURRENT RATIONALIZATION OF OPERATIONS AND DETERMINED ATTEMPTS BY PRODUCERS TO REDUCE PRODUCTION COSTS SHOULD ALLOW MORE AUSTRALIAN PRODUCERS TO WITHSTAND THE HOPEFULLY SHORT TERM PRESSURES OF MARKET FORCES.

NICKEL: THE WORLDWIDE RECESSION HAS IMPACTED ON THE AUSTRALIAN NICKEL INDUSTRY. CUTBACKS IN THE IRON AND STEEL INDUSTRY, PARTICULARLY IN JAPAN, HAVE HAD AN ADVERSE EFFECT ON DOMESTIC PRODUCERS. IN AUSTRALIA, WHICH NOW SUPPLIES ABOUT 10 PERCENT OF THE WORLD MARKET, SINCE THE LATE 1960S EIGHT NEW MINES HAVE COME ON STREAM, ANOTHER IS STILL UNDER

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CONSTRUCTION, AND FOUR CONCENTRATORS, TWO REFINERIES AND ONE SMELTER HAVE BECOME OPERATIONAL. IN ADDITION, THERE ARE AT LEAST ELEVEN UNDEVELOPED DEPOSITS. ALL THIS IS EVIDENCE THAT AUSTRALIA GEARED UP FOR NICKEL DEMAND THAT NEVER MANIFESTED ITSELF, AND THE END RESULT HAS BEEN SOME MINE CLOSURES. THE INDUSTRY IS ALSO PLAGUED BY INCREASING FUEL AND PRODUCTION COSTS. MINE PRODUCTION OF NICKEL ORE CONTINES TO INCREASE, BUT PRODUCTION OF NICKEL CONCENTRATE HAS DECLINED. SINCE IT IS ANTICIPATED THAT NICKEL STOCKS WILL OUTSTRIP WORLD DEMAND AT LEAST UNTIL THE EARLY 1980S, EXPLORATION OF NICKEL HAS ALL BUT CEASED, AND CURRENT PRODUCERS ARE GEARING UP TO FACE HARD TIMES FOR SOME TIME TO COME. DATA ON NICKEL EXPORTS IS COMPANY CONFIDENTIAL, BUT JAPAN IS LIKELY THE MAJOR CONSUMER OF AUSTRALIAN NICKEL, WITH U.S. INTERESTS BUYING SIGNIFICANT QUANTITIES. DOMESTIC NICKEL CONSUMPTION IS NOMINAL.

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PHOSPHATES: WORLD TRADE IN PHOSPHATE WAS WEAK IN 1977 AND INTO 1978. REPERCUSSIONS IN AUSTRALIA IN 1978 WERE SO SEVER THAT THE ONLY DOMESTIC PRODUCER CEASED OPERATIONS. IN 1974, IN AUSTRALIA, A DECISION WAS MADE TO PROCEED WITH THE DEVELOPMENT OF THE DUCHESS PHOSPHATE DEPOSIT. THIS DECISION WAS INFLUENCED BY THE THEN INCREASED WORLD DEMAND AND MASSIVE PRICE INCREASES IN THE PHOSPHATE INDUSTRY. HOWEVER, 1977 AND 1978 PROVED THE DOWNFALL OF THE OPERATION. ON TOP OF DEPRESSED WORLD MARKETS AND GROWING STOCKPILES WAS THE FACT THAT DOMESTIC CONSUMERS, WHO HAVE EASY ACCESS TO SILICA-FREE PHOSPHATE FROM THE TRADITIONAL SUPPLIERS IN THE PACIFIC ISLANDS, HAVE BEEN UNWILLING TO INSTALL ADDITIONAL PROCESSING FACILITIES TO COPE WITH HIGH-SILICA PHOSPHATE FROM THE DUCHESS DEPOSIT. SHORT-TERM OUTLOOK FOR PHOSPHATE MINING IS NOT GOOD AND INDICATIONS ARE THAT THE MARKET WILL BE OVER-SUPPLIED FOR A FEW MORE YEARS. THE LONG-TERM OUTLOOK, HOWEVER, IS BRIGHT AND ALL INDICATIONS POINT TO THE EVENTUAL REOPENING OF THE DUCHESS MINE WITH ITS 1,400 MILLION TONNES OF 17.5 PERCENT PHOSPHATE.

TIN: ALTHOUGH NOT THE SUBJECT OF THE QUESTIONNAIRE, TIN IS INCLUDED IN THIS SURVEY BEACUSE AUSTRALIA IS ONE OF THE WORLD'S MAJOR TIN PRODUCERS. TIN PRODUCTION IS AUSTRALIA HAS HAD ITS PEAKS AND VALLEYS, BUT DURING THE LAST REPORTING PERIOD TIN ORE UNCLASSIFIED

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AND CONCENTRATE PRODUCTION WAS UP WHILE UNWORKED REFINED TIN DECREASED SLIGHTLY. AS A PRODUCER MEMBER OF THE FIFTH INTERNATIONAL TIN AGREEMENT, AUSTRALIAN TIN PRODUCTION IS CONTROLLED.

EXPORTS HAVE BEEN MAINLY TO MALAYSIA AND THE U.K. DEVALUATION OF THE AUSTRALIAN DOLLAR IN 1976 COUPLED WITH RISE OF TIN PRICES HAS ALLOWED SUBSTANTIAL MINE AND PLANT DEVELOPMENT IN THE AUSTRALIAN TIN INDUSTRY. THIS GREATLY ENHANCES THE ABILITY OF DOMESTIC PRODUCERS TO INCREASE FUTURE TIN OUTPUT.

(2E) AS MENTIONED ABOVE, AUSTRALIA IS A LEADER OR ONE OF THE LEADING PRODUCERS OF SEVERAL MINERAL COMMODITIES. THESE PRODUCTION FIGURES ARE BACKED UP BY TREMENDOUS RESERVES OF NONFUEL MINERALS. THIS DOMINANT POSITION IN THE WORLD MINERAL SCENE HAS NOT LED AUSTRALIA TO EXERT ANY OLIGOPOLISTIC OR MONOPOLISTIC TENDENCIES RELATIVE TO WORLD MARKETS. IN INTERNATIONAL MINERAL PRODUCER FORUMS, AUSTRALIA HAS ALWAYS PROVIDED A DEGREE OF STABILITY AND RATIONALITY TO WHAT OTHERWISE COULD BECOME RATHER EXPLOSIVE COMMODITY POLICY DECISIONS ON THE PART OF DEVELOPING COUNTRY MINERAL PRODUCERS.

(2F) NOT IN QUESTIONNAIRE.

(2G) AUSTRALIA HAS A POSITIVE TRADE BALANCE RELATIVE TO MINERAL COMMODITIES. EXPORTS OF NONFUEL MINERALS FAR EXCEED ANY NONFUEL IMPORTS. THE POSITIVE TRADE BALANCE IN MILLIONS OF U.S. DOLLARS HAS BEEN: 1973 (1,905); 1974 (2,756); 1975 (3,440); 1976 (4,175); AND 1977 (3,165).

(2H) FLUCTUATIONS IN MINERALS EARNINGS APPEAR TO BE LESS PRO-
NOUNCED THAN ONE MIGHT SUPPOSE. AT CONSTANT-DOLLAR PRICES, THE
VALUE OF MINERALS EXPORTS OVER THE FOUR YEARS FROM FY 1973-74 TO
FY 1976-77 FLUCTUATED BY LESS THAN A DOLS 200 MILLION, FROM A
MINIMUM OF A DOLS 1791 IN 1973-74 TO A MAXIMUM OF A DOLS BQOIT IN
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1976-77 (METALLIFEROUS ORES AND METAL SCRAP; COAL, COKE, AND
BRIQUETTES). THE RELATIVE EVENNESS IN EXPORT EARNINGS SEEMS
ATTRIBUTABLE TO THE EFFECTS OF LONG-TERM CONTRACTS AND LONG LEAD
TIMES IN BRINGING PROJECT ON STREAM. THUS, THOUGH THE COMMON
PERCEPTION IN AUSTRALIA IS ONE OF AN EXPORT DLOW-DOWN, THE
MOMENTUM OF PRIOR YEARS HAS HELD TOTAL VALUES UP DESPITE THE
WORLD ECONOMIC SLOWDOWN.

AS JAPAN IS THE MAJOR PURCHASER OF AUSTRALIAN MINERALS, STATE
AND NATIONAL GOVERNMENT MISSIONS HAVE SOUGHT TO ENCOURAGE JAPAN
TO MAINTAIN ITS PURCHASES DESPITE REDUCED DEMAND. THESE EFFORTS
HAVE BEEN REASONABLY FRUITFUL, SINCE JAPAN HAS ANNOUNCED ITS
INTENTION TO STOCKPILE MINERALS IN ADVANCE OF CURRENT EXPORT
NEEDS. THOUGH AUSTRALIA IS UNHAPPY WITH THE SUBDUED MINERALS
EXPORT PICTURE, NEVERTHELESS, ABRUPT FLUCTUATIONS IN EXPORT
EARNINGS HAVE BEEN AVOIDED.

(2I) AUSTRALIA IS SO WELL ENDOWED WITH MINERAL RESOURCES THAT

DEPENDENCE ON MINERAL IMPORTS IS MINIMAL. THE PRINCIPAL
NONFUEL MINERALS THAT ARE IMPORTED ARE INDUSTRIAL ABRASIVES,
CHROMITE AND ELEMENTAL SULPHUR. OUTSIDE OF THE NOFUEL SECTOR,
AUSTRALIA IS CONCERNED ABOUT SUPPLY DISRUPTIONS AND PRICE INCREASES
AFFECTING PETROLEUM, BECAUSE THE COUNTRY IS ROUGHLY TWO-THIRDS
SELF-SUFFICIENT WITH RESERVES DECLINING.

(2J) EXPLORATION FOR NONFUEL MINERALS HAS ALWAYS BEEN ACTIVE IN
AUSTRALIA, AND THERE IS EVERY INDICATION THAT EXPLORATION ACTIVITY
WILL CONTINUE TO INCREASE IN THIS SECTOR. TRUE, THE EMPHASIS OFTEN
CHANGES AS TO WHAT TYPE OF MINERALS ARE BEING SOUGHT, BUT,
GENERALLY, EXPLORATION FOR BASE METALS CONTINUES UNABATED. THE
MAJOR EXPLORATION TAX INCENTIVES HAVE BEEN GIVEN TO THE FUEL
SECTOR, WITH BENEFITS FOR THE NONFUEL SECTOR COMING AT THE POINT
WHERE MINE DEVELOPMENT AND TRANSPORTATION COSTS ARE MAJOR CONCERNS.
THE WIDELY ACCEPTED VIEW AMONG GEOLOGISTS IS THAT THE EASY MINERAL
DISCOVERIES HAVE BEEN MADE AND THE STAGE HAS BEEN REACHED WHERE
MORE SOPHISTICATED GEOCHEMICAL AND GEOPHYSICAL TECHNIQUES WILL
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HAVE TO BE EMPLOYED TO DISCOVER "BLIND DEPOSITS." THE GOA ACTIVELY
ENCOURAGES EXPLORATION ACTIVITY IN THE MINERALS SECTOR, AND ONLY
AT THE MINE DEVELOPMENT STATE MUST CERTAIN FEDERAL REGULATIONS
BE ADHERED TO.

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(3) AUSTRALIAN PROSPERITY HAS TRADITIONALLY BEEN GROUNDED IN RAW MATERIALS PRODUCTION, BOTH AGRICULTURAL AND MINERAL. HOWEVER, IN THE 1930S AUSTRALIA CONSCIOUSLY EMBARKED ON A POLICY OF PROMOTING INDUSTRIAL DEVELOPMENT THROUGH THE DIVERSION OF RESOURCES OUT OF THE PRIMARY PRODUCING SECTORS AND INTO THE INDUSTRIAL SECTOR. THE PRIMARY MECHANISM USED TO ACCOMPLISH THIS WAS PROTECTIVE TARIFFS.

THROUGH THE POLICY INITIALLY APPEARED TO BE BENEFICIAL, INFLATION, LOW LABOR PRODUCTIVITY, AND STRUCTURAL CHANGES IN THE AUSTRALIAN AND WORLD ECONOMY HAVE CAUSED AUSTRALIAN INDUSTRY TO BECOME INCREASINGLY NON-COMPETITIVE. THIS HAS ENCOURAGED LEVELS OF PROTECTION FOR AUSTRALIAN INDUSTRY WHICH HAVE BECOME PROPORTIONATELY EVEN HIGHER OVER TIME. THE RESULTANT ARTIFICIALLY HIGH EXCHANGE RATE HAS DISADVANTAGED NOT ONLY AUSTRALIAN PRIMARY PRODUCERS, BUT ALSO THE LESS PROTECTED INDUSTRIAL SECTORS.

MINERALS PRODUCTION AND EXPORT HAS BEEN LESS ADVERSELY AFFECTED THAN AGRICULTURE BY THIS SITUATION, SINCE LABOR REQUIREMENTS ARE RELATIVELY LOW AND MUCH OF THE EQUIPMENT NEEDED FOR MINING IS IMPORTED. HOWEVER, PROCESSING OF RAW MATERIALS INTO SEMI-FINISHED AND FINISHED FORM HAS BEEN RETARDED, AND THIS IN TURN HAS GENERATED RESENTMENT AT AUSTRALIA'S ROLE AS A PRODUCER OF UNPROCESSED MINERALS FOR THE INDUSTRIALIZED ECONOMIES.

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NEVERTHELESS, BECAUSE THE OVERVALUED EXCHANGE RATE HAS PRECLUDED MANY MANUFACTURED EXPORTS WHICH AUSTRALIA WOULD OTHERWISE PRODUCE, AUSTRALIA'S DEPENDENCE ON ITS MINERALS AND AGRICULTURAL EXPORTS HAS BEEN HEIGHTENED. ECONOMIC NECESSITY THUS APPEARS TO DICTATE CONTINUED GOVERNMENT SUPPORT FOR MINING DEVELOPMENT, EVEN THOUGH THE EXPORTS ARE LIKELY TO CONTINUE IN RELATIVELY UNPROCESSED FORMS.

(4) INSTITUTIONS THAT ATTEMPT TO INFLUENCE MINERAL POLICY DECISIONS INCLUDE: AUSTRALIAN MINING INDUSTRY COUNCIL -- GROUP OF MOST MINING COMPANIES; AUSTRALIAN PETROLEUM EXPLORATION ASSOCIATION -- MEMBERSHIP INCLUDES HARD ROCK MINERS; AUSTRALASIAN INSTITUTE OF MINING AND METALLURGY -- GROUP OF MINERAL INDUSTRY PROFESSIONALS AS OPPOSED TO COMPANY MEMBERSHIP; AUSTRALIAN COUNCIL OF TRADE UNIONS; AUSTRALIAN CONSERVATION FOUNDATION; FRIENDS OF THE EARTH; VARIOUS COMMODITY PRODUCER GROUPS, NOTABLY COAL, MINERAL SANDS, ALUMINIUM, TIN, LEAD, ZINC, AND REPRESENTATIVES OF THE ABORIGINAL COMMUNITY.

(5) AUSTRALIAN STATES HAVE A GREAT DEAL OF AUTONOMY WHICH RESULTS IN FREQUENT CONFRONTATIONS BETWEEN FEDERAL AND STATE GOVERNMENT OFFICIALS IN MAKING DECISIONS RELATING TO THE MINING SECTOR. IN AUSTRALIA, MINERAL RIGHTS RESIDE IN THE CROWN, BUT IT IS THE STATE THAT ISSUES MINERAL LEASES. GENERALLY, THE STATES SHARE THE VIEW OF FEDERAL OFFICIALS THAT DEVELOPMENT OF THE MINERAL SECTOR IS

IMPORTANT TO AUSTRALIA AND SHOULD PROCEED AS PRACTICABLE. STATE PREMIERS, IN PARTICULAR, HAVE A MAJOR CONSULTATIVE ROLE IN DEVELOPING MINERAL POLICY IN THEIR RESPECTIVE STATES. THE PRINCIPAL NEGATIVE FORCES OUTSIDE OF GOVERNMENT THAT AFFECT MINING POLICY EMANATE FROM THE TRADE UNIONS AND GROUPS SPEAKING FOR THE ABORIGINALS.

(6) PRINCIPAL OPPOSITION TO THE GOVERNING LIBERAL/NATIONAL COUNTRY
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PARTY COALITION IS THE AUSTRALIAN LABOR PARTY (ALP). THE PARLIAMENTARY RANKS OF THE ALP HAVE BEEN DECIMATED IN THE LAST TWO ELECTIONS, BUT THE ALP STILL HAS A STRONG VOICE IN SHAPING MINERAL POLICY BECAUSE OF THE INFLUENCE THE TRADE UNIONS EXERT ON THE ALP. THE VIEWS OF THE TRADE UNIONS MUST BE CONSIDERED IN AUSTRALIA BECAUSE THEIR INFLUENCE IS VERY GREAT WITHIN THE COUNTRY. IN CONTRAST TO THE GOVERNMENT, THE ALP IS MORE CONCERNED WITH REGULATING THE LEVEL OF FOREIGN INVESTMENT AND CONTROL IN THE MINING SECTOR, AS WELL AS TO OPPOSING THE MINING OF URANIUM IN AUSTRALIA. ALSO THE ALP CALLS FOR A RESOURCES RENT TAX TO SKIM OFF EXCESS PROFITS, WHICH IN THE ALP VIEW ACCRUE TO MANY MINING VENTURES.

CHANCES OF THE ALP ACHIEVING FEDERAL GOVERNMENT ARE UNLIKELY, BUT NOT IMPOSSIBLE, WITHIN THE NEXT 3-6 YEARS. REGARDLESS OF WHICH POLITICAL PARTY IS IN POWER, AUSTRALIANS REALIZE THAT THE ECONOMIC AND SOCIAL WELFARE OF THE COUNTRY IS VERY CLOSELY TIED TO THE PROSPERITY OF THE MINERALS SECTOR.

(7) AUSTRALIA HAS THE REPUTATION OF BEING A RELIABLE SUPPLIER OF MINERAL COMMODITIES, AND THERE APPEARS LITTLE ON THE HORIZON THAT WOULD SERIOUSLY ALTER THIS RELIABILITY. EVEN WITH PERIODS OF INTERNAL POLITICAL AND ECONOMIC DISTRESS, AUSTRALIA HAS USUALLY BEEN PROMPT IN MEETING MINERAL CONTRACTUAL OBLIGATIONS. THE TRADE UNIONS, HOWEVER, HAVE BEEN EFFECTIVE AT TIMES IN REDUCING OR HALTING MINE PRODUCTION, AND THESE ACTIONS HAVE LED SOME TO QUESTION AUSTRALIA'S ABILITY TO MEET ITS EXPORT COMMITMENTS.

(8) IN THE END IT IS THE FEDERAL GOVERNMENT THAT POSSESSES THE AUTHORITY TO DETERMINE WHETHER OR NOT A MINING VENTURE WILL BE VIABLE. THIS FEDERAL CONTROL IS EXERTED THROUGH THE APPROVAL OR

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DENIAL OF MINERAL EXPORT CONTRACT APPLICATIONS; IF APPROVED THE EXPORT CONTRACT IS VALID FOR ONE YEAR. WITHOUT AN EXPORT CONTRACT, A MINER IS ONLY FREE TO MARKET WITHIN AUSTRALIA AND THIS IS A VERY INVIABLE ALTERNATIVE IN A COUNTRY WHOSE MINERALS OUTPUT IS EXPORT ORIENTED. FEDERAL CONTROL OVER EXPORTS IS DESIGNED TO ENSURE THAT DOMESTIC PRODUCERS RECEIVE WORLD PRICES FOR THEIR COMMODITY AND THAT NO DEALS ARE MADE THAT WILL BE HARMFUL TO OTHER MEMBERS OF THE SAME MINERAL SECTOR. THE GOA HAS LEGISLATED FOREIGN INVESTMENT GUIDELINES WHICH STATE THAT, EXCEPT FOR THE URANIUM INDUSTRY, WHERE A MINIMUM OF 75 PERCENT AUSTRALIAN EQUITY AND CONTROL OF A MINING VENTURE IS THE OBJECTIVE, OTHER MINERAL DEVELOPMENT PROJECTS ARE TO SEEK A MINIMUM OF 50 PERCENT AUSTRALIAN EQUITY AND CONTROL "AS A GENERAL RULE." THESE RULES APPLY TO INVESTMENTS OF DOLS A ONE MILLION OR MORE IN "KEY AREAS;" THE LATTER INCLUDES OIL, NATURAL GAS AND ALL OTHER MINERALS. THE 50 PERCENT EQUITY OBJECTIVE HAS NOT YET STOOD IN THE WAY OF A MINERAL PROJECT'S PROCEEDING IF THE COMPANY HAS MADE A CONCERTED EFFORT TO OBTAIN AUSTRALIAN EQUITY PARTICIPATION AND HAS FAILED. IN ADDITION, THE FOREIGN TAKEOVERS ACT ENABLES THE TREASURER TO EXAMINE CERTAIN INVESTMENT PORPOSALS WHICH MAY RESULT IN FOREIGN ENTITIES ACQUIRING CONTROL OF AN AUSTRALIAN BUSINESS.

STATE GOVERNMENTS EXERT CONTROL OVER THE MINING INDUSTRY AS THEY
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ISSUE MINING LEASES AND IN CONSULTATION WITH THE FEDERAL GOVERNMENT SET ENVIRONMENTAL STANDARDS FOR PROPOSED MINING VENTURES.

(9) TAX BENEFITS FOR COSTS INCURRED IN MINE AND RELATED TRASNPOT DEVELOPMENTS ARE THE MAJOR INCENTIVES FOR THE NONFUEL MINERAL ECONOMY. IT IS THE OIL AND GAS SECTOR THAT HAS RECEIVED THE GREATEST BOOST THROUGH TAX AND INVESTMENT INCETIVES. A 40 PERCENT INVESTMENT ALLOWANCE FOR CAPITAL EQUIPMENT EXPIRED ON JULY 1, 1978, BUT NOT BEFORE THE BULK OF THE MINING COMPANIES COMMITTED

FUNDS FOR CAPITAL DEVELOPMENT. AFTER A FOREIGN INVESTOR HAS SATISFIED FEDERAL AND STATE REGULATIONS APPLICABLE TO THE PARTICULAR INVESTMENT, MOST RESTRICTIONS OR BENEFITS AFFECTING THE INDUSTRY APPLY EQUALLY TO DOMESTIC AND FOREIGN INVESTORS.

(10) THERE IS NO OWNERSHIP PATTERN THAT IS FAVORED OVER ANOTHER. THE ONLY CONSIDERATION IS THAT THE GOVERNMENT DESIRES AS MUCH AUSTRALIAN FINANCIAL AND MANAGERIAL PARTICIPATION IN THE VENTURE AS IS FEASIBLE.

(11) IN FY 76/77, THE PERCENT OF MINING ESTABLISHMENTS FOREIGN CONTROLLED, BY COUNTRY OF CONTROL, WAS: U.K., 4.8, U.S. 2.4, OTHER 2.6. FIXED CAPITAL EXPENDITURE (NET): U.S. 32.2, U.K. 16.5, OTHER 4.7; VALUE ADDED: U.S. 37.5, U.K. 15.9, OTHER 5.6. AUSTRALIAN INVESTMENT ABROAD IN THE MINING SECTOR WAS AS FOLLOWS IN FY 76/77 (DOLS A MILLION): SOUTHEAST ASIA 5.4; U.S. 4.9; PAPUA NEW GUINEA 4.7; CANADA 0.4; NEW ZEALAND MINUS 2.5; OTHER 3.1.

(12) THERE IS NO APPARENT EFFORT IN AUSTRALIA TO ALTER THE CHARACTER OF U.S. OR OTHER FOREIGN INVESTMENT IN THE MINERAL SECTOR.

(13) THE EXTRATERRITORIAL APPLICATIONS OF U.S. LAWS IN AUSTRALIA THROUGH THE ACTIONS OF THE DEPARTMENT OF JUSTICE (DOJ) ARE VIEWED UNCLASSIFIED

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VERY UNFAVORABLY BY THE AUSTRALIANS. OF PARTICULAR NOTE, WHEN FACED BY DOJ ATTEMPTS IN THE WESTINGHOUSE CASE AND THE URANIUM CARTEL INVESTIGATIONS TO SUBPOENA AMERICANS RESIDING IN AUSTRALIA OR AUSTRALIAN CITIZENS, PARLIAMENT RAMMED THROUGH LEGISLATION PROHIBITING TESTIMONY BY RESIDENTS OF AUSTRALIA, WHETHER CITIZENS OR NOT.

(14) COMPANIES ARE SUBJECT TO FULL TAXATION IF THEY ARE RESIDENT IN AUSTRALIA. MOST U.S. CORPORATIONS OPERATE THROUGH AUSTRALIAN SUBSIDIARIES, AND THE LATTER ARE CONSIDERED RESIDENTS FOR AUSTRALIAN TAX PURPOSES. A SUBSTANTIAL SHARE OF AUSTRALIAN IMPORTS ENTER AT ZERO RATES OF DUTY UNDER THE SO-CALLED BY-LAY SYSTEM. THESE ARE ITEMS WHICH ARE NOT READILY AVAILABLE FROM AUSTRALIAN SOURCES AND CONSIST MAINLY OF CAPITAL GOODS AND INDUSTRIAL SUPPLIES. THUS, MINERAL IMPORTERS ARE LIKELY TO BENEFIT FROM BY-LAW IMPORTS. THERE ARE NO MINERAL PRODUCTION QUOTAS, BUT THERE IS AN EXPORT TAX ON COAL (SCHEDULED TO BE PHASED OUT) AND ROYALTY PAYMENTS PAYABLE TO THE STATE FOR THE PRODUCTION OF SOME MINERALS. BECAUSE OF THE ABUNDANCE OF NONFUEL MINERALS IN THE COUNTRY, THERE HAS BEEN NO REQUIREMENT FOR THE GOVERNMENT TO GIVE PREFERENTIAL ACCESS TO ANY MINERALS TO DOMESTIC CONSUMERS.

THE POSSIBILITY OF THE IMPLEMENTATION OF A RESOURCES TENT TAX

APPLICABLE TO VARIOUS SEGMENTS OF THE MINERAL INDUSTRY HAS BEEN CRUBBED BY THE FEDERAL GOVERNMENT.

(15) AUSTRALIAN TOLERATE OR SUPPORT A FAR GREATER DEGREE OF GOVERNMENT INTERVENTION IN THE MARKETPLACE THAN DO AMERICANS. GOVERNMENT MARKETING BOARDS OF ONE SORT OR ANOTHER, LIMITATIONS ON PRODUCTION OR ON ENTRY INTO PARTICULAR MARKETS, AND REGULATION OF PRICES ARE COMMON FEATURES OF THE AUSTRALIAN ECONOMY. ACCORDINGLY, THE GOVERNMENT IS PHILOSOPHICALLY SYMPATHETIC TO THE IDEA OF COMMODITY ARRANGEMENTS AND PRODUCERS' ASSOCIATIONS. IT GENERALLY SUPPORTS THE POSITION OF THE DEVELOPING COUNTRIES WITH RESPECT TO SUCH MATTERS AS THE PROPOSED COMMON FUND. DESPITE UNCLASSIFIED

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BEING A DEVELOPED COUNTRY WITH HIGH DUTIES ON THE CONSUMER GOODS OF EXPORT INTEREST TO THE DEVELOPING COUNTRIES, THE GOVERNMENT'S INCLINATION IS TO VIEW ITSELF AS A PRIMARY PRODUCER SHARING COMMON CAUSE WITH THE DEVELOPING COUNTRIES IN SEEKING GREATER ACCESS FOR RAW MATERIALS IN THE SUPPOSEDLY RESTRICTED MARKETS OF THE OTHER DEVELOPED COUNTRIES. HOWEVER, ITS APPROACH IS PRAGMATIC AND CONSTRUCTIVE IN DEALING WITH THESE ISSUES.

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(16) WITH PARTICULAR REFERENCE TO THE MINERALS SECTOR, AUSTRALIAN DIPLOMACY IS MOT CLOSELY LINKED TO THE COUNTRIES THAT AFFOR THE MAJOR EXPORT AND IMPORT MARKETS FOR AUSTRALIAN PRODUCED AND

CONSUMED MINERALS. RECIPIENTS OF MINERAL EXPORTS CHANGE LITTLE YEAR TO YEAR, ALTHOUGH THE TONNAGES MAY BE ALTERED. IN CALENDAR 77 EXPORTS (PERCENTAGE BASED ON VALUE) WERE TO: JAPAN 51.6; EEC 13.15; U.S. 8.23; U.K. 6.67. NONFUEL MINERAL IMPORTS, FW IN NUMBER, CAME MAINLY FROM CANADA, SOUTH AFRICA AND THE PHOSPHATE ISLANDS (CHRISTMAS, NARU, GILBERT AND ELLICE). AUSTRALIA DOES LOOK TO THE MIDDLE EAST FOR PETROLEUM IMPORTS.

(17) AUSTRALIAN IMPORTS FROM THE U.S. INCLUDE: A BROAD RANGE OF MANUFACTURED GOODS, NOTABLY AIRCRAFT, INTERNAL COMBUSTION ENGINES, MOTOR VEHICLE PARTS, ORGANIC CHEMICALS AND CONSTRUCTION AND MINING MACHINERY. THESE IMPORTS AMOUNTED TO 20.7 PERCENT OF THE FOB COST OF AUSTRALIAN IMPORTS. AUSTRALIA VIEWS THE U.S. AS A RELIABLE SOURCE OF IMPORTED MATERIALS. THE PRINCIPAL ALTERNATIVE SUPPLIERS FOR GOODS PROVIDED BY THE U.S. ARE JAPAN AND THE EEC.

(18) AUSTRALIAN EXPORTS TO THE U.S. INCLUDE BEEF, ALUMINA, REFINED LEAD AND ZINC, NICKEL OXIDE, MINERAL SANDS, IRON ORE, SHELLFISH AND SUGAR. IN CALENDAR 77, EXPORTS TO THE U.S. TOTALED 9.3 PERCENT OF FOB EXPORT INCOME.

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(19) THERE IS A CONTINUAL DIALOGUE BETWEEN PUBLIC AND PRIVATE OFFICIALS OF THE TWO COUNTRIES. INTERGOVERNMENTAL DISCUSSIONS ARE FREQUENT AND INFORMATION INTERCHANGE IS WELL DEVELOPED. BUT THE PRINCIPAL COMMUNICATION CHANNEL IS BETWEEN OFFICIALS OF THE RESPECTIVE PRIVATE MINING SECTORS.

(20) THE U.S. HAS BEEN CONCERNED ABOUT AUSTRALIAN PARTICIPATION IN MINERAL COMMODITY PRODUCER FORUMS, BUT AUSTRALIAN ACTIONS TO DATE HAVE NOT CAUSED A GREAT DEAL OF CONCERN. FUTURE RELATIONS BETWEEN THE COUNTRIES ON MINERALS RELATED ISSUES SHOULD CONTINUE TO BE SATISFACTORY.

(21) THE END OF THE DOJ INVESTIGATION INTO THE URANIUM INDUSTRY BROUGHT SIGHS OF RELIEF TO BOTH AMERICAN AND AUSTRALIAN MINING OFFICIALS. THERE HAS BEEN A MINOR IRRITATION DEVELOPED BY U.S. ACTIONS TO OBTAIN A BETTER DEAL FOR DILLINGHAM, THE AMERICAN MINERAL SANDS MINER WHICH HAD ITS OPERATION CLOSED ON ENVIRONMENTAL GROUNDS. STILL REMAINING AN ISSUE IS THE LEVEL OF COMPENSATION DUE TO DILLINGHAM FROM THE AUSTRALIAN GOVERNMENT.

(22) AUSTRALIA AND THE UNITED STATES SHARE A GREAT RANGE OF COMMON INTERESTS, PARTICULARLY IN THEIR MUTUAL DESIRE TO SEE INCREASED ACCESS FOR AGRICULTURAL EXPORTS IN JAPAN AND THE COMMON MARKET. COOPERATION BETWEEN THE U.S. AND THE HOST COUNTRY IN THE MINERALS FIELD IS AS GOOD AS ONE MIGHT EXPECT IT TO BE, GIVEN THE SOMEWHAT DIFFERENT ECONOMIC PHILOSOPHIES DESCRIBED IN THE ANSWER TO QUESTION 15. INCREASED ACCESS TO THE U.S. MARKET FOR AUSTRALIAN

BEEF, WOOL, AND DAIRY PRODUCTS WOULD BE THE AREA OF MOST BEARING ON U.S. ECONOMIC RELATIONS WITH AUSTRALIA, WITH AUSTRALIA BEING PARTICULARLY SENSITIVE TO LIMITATIONS ON ITS BEEF EXPORTS.

(23) THE EMBASSY BELIEVES THAT NO CHANGES IN U.S. FOREIGN POLICY
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WITH RESPECT TO AUSTRALIA ARE NECESSARY TO BETTER PURSUE U.S. MINERALS INTERESTS. IT IS DIFFICULT TO ENVISION WHAT MIGHT BE ENTAILED IN A MORE MINERALS-ORIENTED FOREIGN POLICY VIS-A-VIS AUSTRALIA THAT WOULD SIGNIFICANTLY ENHANCE U.S. INTERESTS.
ALSTON

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
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Channel Indicators: n/a
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Decaption Note:
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Review Content Flags:
Review Date: 29 mar 2005
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Review Release Date: N/A
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Review Transfer Date:
Review Withdrawn Fields: n/a
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Status: NATIVE
Subject: NONFUEL MINERALS POLICY REVIEW: AUSTRALIA
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To: STATE
Type: TE
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Review Markings:
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